TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 13 - SB 113

February 12, 2023

SUMMARY OF BILL: Enacts the "Tennessee Retirement Savings Plan Act." Creates a Tennessee Retirement Savings Board (Board) consisting of seven members: the Treasurer or Treasurer's designee, four members appointed by the Governor, a member of the Senate, and a member of the House of Representatives. Requires members of the Board who are not governmental employees to receive a per diem of $75 for attending board meetings and all members to receive reimbursement for travel and other necessary expenses. Gives the Board power to promulgate rules as necessary, direct investment of funds contributed to accounts consistent with the restrictions set by the Board, collect fees to defray administrative costs, enter into an agreement with a third-party recordkeeper, and enter into agreements with necessary financial institutions and other entities, among other powers. Requires the Board to establish a process for employers to withhold employee contributions to plan accounts and send the contributions to the investment administrator. Requires the Board to report to the Governor, and the Chairs Finance, Ways and Means Committees of the House of Representatives and Senate of the annually by February 1 each year detailing the Board's activities.

Requires the Board to develop a defined contribution plan (Plan) allowing eligible Tennessee residents employed for compensation to contribute to a Retirement Savings Account, with a default contribution rate of five percent, through payroll deduction. Requires the Plan to provide for contributions to be deposited directly with the investment administrator for the Plan, for account owners to maintain an account regardless of place of employment, and use private sector partnerships to administer and invest contributions. Requires an employer with over five employees and no offered qualified retirement plan to offer employees the opportunity to contribute to an account. Allows eligible employees to opt out of contributing to the account. Establishes the Plan's Administrative Fund in the Treasury. Establishes the Administrative Fund can be funded with money appropriated by the General Assembly, money transferred from the federal government, or money from payment of fees to the Board.

Requires the Board to conduct a market analysis to determine the feasibility of establishing a plan that allows eligible individuals employed for compensation the opportunity to contribute to an account, the costs of the Plan to employers, and if a plan currently exists in the private market. Requires the market analysis to be submitted to the General Assembly by July 1, 2024. Establishes that the Plan shall be offered to certain private employers beginning on January 1, 2026 if the Board determines that the Plan should be created.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – $218,800/FY23-24
$218,800/FY24-25
$816,300/FY25-26
$791,300/FY26-27 and Subsequent Years

Other Fiscal Impact – The extent to which state expenditures will be offset by participant fee revenue once the plan reaches appropriate scale is unknown and cannot be quantified with reasonable certainty.

Assumptions:

- The proposed legislation will have a fiscal impact to Treasury, as the State Treasurer will be responsible for administration of a new defined contribution plan.
- For the purpose of this analysis, it is assumed there will be 12 monthly meetings a year.
- The increase in state expenditures resulting for the four appointed members on the Board is estimated to be $11,280 [($160 travel reimbursement + $75.00 per diem) x 12 meetings x 4] in FY23-24 and subsequent years.
- Each legislative member will receive $313 per day and an average mileage reimbursement of $160 for each meeting held outside the regular legislative session.
- It is assumed that four of the monthly meetings will be during the regular legislative session; therefore, the two legislative members on the Board will receive compensation for eight meetings.
- The increase in state expenditures resulting from the two legislative members on the Board is estimated to be $7,568 [($160 travel reimbursement + $313) x 8 meetings x 2] in FY23-24 and subsequent years.
- The increase in state expenditures resulting from maintaining the operations of the Board is estimated to be $18,848 ($11,280 + $7,568) in FY23-24 and subsequent years. Such expenditures are assumed to be paid from the General Fund as fee revenue will not be available until after January 1, 2026. The extent of additional fee revenue to cover Board expenditures in subsequent years is unknown.
- The proposed legislation will cause an increase in expenditures for the Department of Treasury to administer the retirement plan and to accommodate new members who voluntarily enroll; any such expenditures will be offset to an unknown extent by fee revenue charged to plan participants once the plan reaches appropriate scale. Monies that have already been appropriated may be used to subsidize the participant fees until then.
- A market analysis that determines the feasibility of the plan, in addition consulting and customer acquisition costs will be required. Such costs are estimated to increase state expenditures by $200,000 in FY23-24.
- It is assumed that the Board will determine that the Plan should be created. Since the Plan shall be offered to certain private employers beginning on January 1, 2026, it is assumed that all administrative costs will be incurred beginning on July 1, 2025, or FY25-26, with the exception of marketing expenses which will be incurred beginning in FY24-25.

- Based on information provided by the Tennessee Consolidated Retirement System (TCRS), the recurring costs for:
  - A marketing contractor will be $200,000;
  - Indirect costs involving legal, communications, accounting and information systems will be $100,000; and
  - 100 hours of outside legal service at a $520 hourly rate will be $52,000.
- Five full-time employees will be required as follows: one director position, one accountant position and three employer outreach positions.
- There will be a recurring increase in state expenditures of $420,480 {[($84,060 salary + $21,288 benefits + $5,000 training, travel, supplies) x 1 director position] + [($50,004 salary + $15,635 benefits + $5,000 training, travel, supplies) x 1 accountant position] + [($57,888 salary + $16,943 benefits + $5,000 training, travel, supplies) x 3 employer outreach positions]} in FY25-26 and subsequent years.
- One-time costs associated with these positions in FY25-26 are estimated to be $25,000 for computers and supplies.
- The total increase in state expenditures as a result of the proposed legislation is estimated to be $218,848 ($18,848 + $200,000) in FY23-24, $218,848 ($18,848 + $200,000) in FY24-25, $816,328 ($18,848 + $200,000 + $100,000 + $52,000 + $420,480 + $25,000) in FY25-26, and $791,328 ($18,848 + $200,000 + $100,000 + $52,000 + $420,480) in FY26-27 and subsequent years.
- The proposed legislation does not provide an allocation to begin a defined contribution plan. If this the proposed legislation is enacted, further increases to expenditures to begin and sustain a defined contribution plan and its continued administration will be required.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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